

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Elk Rapids Township	County Antrim
Audit Date 3/31/05	Opinion Date 8/22/05	Date Accountant Report Submitted to State: 2/2/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) J L Stephan Co, PC			
Street Address 862 E. Eighth St.	City Traverse City	State MI	ZIP 49686
Accountant Signature 		Date 2/2/06	

Elk Rapids Township
Antrim County, Michigan

Audited Financial Statements

March 31, 2005

Table of Contents

	<u>Page</u>
FINANCIAL SECTION	
<u>Independent Auditor's Report</u>	1
<u>Financial Statements</u>	
<u>Exhibit</u>	
A Government Wide Statement of Net Assets	2
B Government Wide Statement of Activities	3
C Governmental Funds Balance Sheet	4
D Reconciliation of the Balance Sheet to the Statement of Net Assets	5
E Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance	6
F Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
G Fiduciary Fund Statement of Net Assets	8
H Fiduciary Fund Statement of Changes in Net Assets	9
<u>Notes to Financial Statements</u>	10-17
REQUIRED SUPPLEMENTAL INFORMATION	
<u>Schedule</u>	
1 Budgetary Comparison Schedule – General Fund	18-19
2 Budgetary Comparison Schedule – Fire and Rescue Fund	20-21
ADDITIONAL INFORMATION	
Combining Balance Sheet – Non-Major Governmental Funds	22
Combining Statement of Revenues, Expenditures and Changes In Fund Balance – Non-Major Governmental Funds	23
OTHER INFORMATION (UNAUDITED)	
<u>Comments and Recommendations</u>	24-26

FINANCIAL SECTION



J L Stephan Co PC

Certified Public Accountants

Jerry L. Stephan, CPA

Marty Szasz, CPA
David Skibowski, Jr., CPA

INDEPENDENT AUDITOR'S REPORT

To the Township Board
Elk Rapids Township
Box 365
Elk Rapids, MI 49629

We have audited the accompanying financial statements of the governmental activities and each major fund of Elk Rapids Township as of and for the year ended March 31, 2005 as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with accounting standards generally accepted in the United States of America. These standards require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Township as of March 31, 2005 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United State of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of April 1, 2004. The accompanying statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of the basic financial statements.

The budgetary comparison information on pages 18-21 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. The combining statements of the non-major governmental funds on pages 22-23 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Both the budgetary comparison information and combining statements of non-major governmental funds have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

J. L. Stephan Co. P.C.

August 22, 2005

Elk Rapids Township*Exhibit A**Government Wide
Statement of Net Assets
March 31, 2005*

	<i>Governmental Activities</i>
Assets	
Cash and Cash Equivalents	\$ 338,686
Receivables	
Taxes & Fees	22,612
Due From Others	1,012
Due from Other Funds	3,685
Capital Assets	<u>2,262,730</u>
<i>Total Assets</i>	<u>2,628,725</u>
Liabilities	
Accounts Payable	-
Accrued and Other Liabilities	-
Due to Other Funds	3,580
Deferred Revenue	22,612
Non-Current Liabilities	
Due within one year	8,300
Due within more than one year	<u>36,210</u>
<i>Total Liabilities</i>	<u>70,702</u>
Net Assets	
Invested in Capital Assets - net of related debt	2,262,730
Restricted	
Debt Service	-
Unrestricted	<u>295,293</u>
<i>Total Net Assets</i>	<u><u>\$ 2,558,023</u></u>

The Notes to Financial Statements are an integral part of this statement

Elk Rapids Township
Government Wide
Statement of Activities
For the Year Ended March 31, 2005

Exhibit B

<i>Functions/Programs</i>	<i>Expenses</i>	<u>Program Revenues</u>			<i>Primary</i>
		<i>Charges for</i>	<i>Operating</i>	<i>Capital</i>	<i>Governmental</i>
		<i>Services</i>	<i>Grants and</i>	<i>Grants and</i>	<i>Activities</i>
			<i>Contributions</i>	<i>Contributions</i>	
<i>Primary Government</i>					
General Government	\$ 254,339	\$ 6,506	\$ 11,401	\$ -	\$ (236,432)
Public Safety	289,703	71,645	38,505	-	(179,553)
Public Works	47,485	39,582	5,234	-	(2,669)
Community and Economic Dev.	39,773	-	-	-	(39,773)
Recreation and Culture	-	-	-	-	-
Other Functions	11,610	-	-	-	(11,610)
<i>Total Governmental Activities</i>	<u>642,910</u>	<u>117,733</u>	<u>55,140</u>	<u>-</u>	<u>(470,037)</u>
<i>Total Primary Government</i>	<u>\$ 642,910</u>	<u>\$ 117,733</u>	<u>\$ 55,140</u>	<u>\$ -</u>	<u>(470,037)</u>
<i>General Revenues</i>					
					370,641
					68,778
					19,125
					63
					6,110
					2,554
<i>Special Items</i>					
					15,000
<i>Total General Revenues and Special Items</i>					<u>482,271</u>
<i>Change in Net Assets</i>					12,234
					2,545,789
					<u>\$ 2,558,023</u>

The Notes to Financial Statements are an integral part of this statement

Elk Rapids Township*Exhibit C**Governmental Funds**Balance Sheet**March 31, 2005*

	<i>General</i>	<i>Fire & Rescue</i>	<i>Non-Major Governmental Funds</i>	<i>Total</i>
Assets				
Cash - Unrestricted	\$ 147,512	\$ 117,305	\$ 73,869	\$ 338,686
Taxes & Fees Receivable	11,928	10,508	176	22,612
Pension W/H Receivable	122	-	-	122
Due From Others	-	890	-	890
Due from Other Funds	3,685	-	-	3,685
<i>Total Assets</i>	<u>163,247</u>	<u>128,703</u>	<u>74,045</u>	<u>365,995</u>
Liabilities				
Payroll Liabilities	-	-	-	-
Due to Other Funds	-	3,580	-	3,580
Deferred Revenue	11,928	10,508	176	22,612
<i>Total Liabilities</i>	<u>11,928</u>	<u>14,088</u>	<u>176</u>	<u>26,192</u>
Fund Balances				
Fund Balances	<u>151,319</u>	<u>114,615</u>	<u>73,869</u>	<u>339,803</u>
<i>Total Fund Balances</i>	<u>\$ 151,319</u>	<u>\$ 114,615</u>	<u>\$ 73,869</u>	<u>339,803</u>

The Notes to Financial Statements are an integral part of this statement

Elk Rapids Township
*Reconciliation of the Balance Sheet
to the Statement of Net Assets
March 31, 2005*

Exhibit D

Fund Balance - Total Governmental Funds (Exhibit C)	\$ 339,803
---	------------

*Amounts reported for governmental activities in the statement of net assets
are different because:*

General Governmental Capital Assets of \$3,441,600 net of accumulated depreciation of (\$1,178,870) are not financial resources and not reported in the funds.	2,262,730
--	-----------

Some Liabilities, including Bonds Payable, are not due and payable in the current period and therefore are not reported in the fund.	<u>(44,510)</u>
--	-----------------

Net Assets of Governmental Activities	<u><u>\$ 2,558,023</u></u>
---------------------------------------	----------------------------

Elk Rapids Township
Governmental Fund
Statement of Revenues, Expenditures
and Changes on Fund Balance
For the Year Ended March 31, 2005

Exhibit E

	<i>General Fund</i>	<i>Fire & Rescue Fund</i>	<i>Non-Major Governmental Funds</i>	<i>Total Governmental Funds</i>
<i>Revenues</i>				
Property Taxes	\$ 211,315	\$ 159,326	\$ -	\$ 370,641
Licenses & Permits	2,700	-	-	2,700
State Grants	68,778	-	-	68,778
Local Government Contributions	11,401	38,505	-	49,906
Charges for Services	-	71,645	39,582	111,227
Interest Earned	16,608	630	1,887	19,125
Rentals	3,806	-	-	3,806
Refunds	63	-	-	63
Special Assessments	-	-	5,234	5,234
Contributions	5,150	-	960	6,110
Miscellaneous Income	2,138	416	-	2,554
<i>Total Revenues</i>	<u>321,959</u>	<u>270,522</u>	<u>47,663</u>	<u>640,144</u>
<i>Expenditures</i>				
General Government	230,298	-	25,398	255,696
Public Safety	-	256,414	2,652	259,066
Public Works	874	-	25,067	25,941
Community and Economic Dev.	39,773	-	-	39,773
Recreation and Culture	-	-	-	-
Other Functions	11,610	-	-	11,610
<i>Total Expenditures</i>	<u>282,555</u>	<u>256,414</u>	<u>53,117</u>	<u>592,086</u>
<i>Excess Revenues Over (Under) Expenditures</i>	39,404	14,108	(5,454)	48,058
<i>Other Financing Sources (Uses)</i>				
Proceeds from Debt	44,510	-	-	44,510
Operating Transfers In	2,970	-	15,750	18,720
Operating Transfers (Out)	-	-	(3,720)	(3,720)
<i>Total Other Financing Sources (Uses)</i>	<u>47,480</u>	<u>-</u>	<u>12,030</u>	<u>59,510</u>
<i>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</i>	86,884	14,108	6,576	107,568
Fund Balance - Beginning	64,435	100,507	67,293	232,235
Fund Balance - Ending	<u>\$ 151,319</u>	<u>\$ 114,615</u>	<u>\$ 73,869</u>	<u>\$ 339,803</u>

The Notes to Financial Statements are an integral part of this statement

Elk Rapids Township

Exhibit F

*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended March 31, 2005*

Change in Fund Balance - Total Governmental Funds (Exhibit E)	\$ 107,568
---	------------

Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$81,996) is exceeded by depreciation (\$132,820) in the current period.	(50,824)
---	----------

Debt proceeds are not reported as financing sources on the statement of activities	<u>(44,510)</u>
--	-----------------

<i>Change in net assets of governmental activities (Exhibit B)</i>	<u><u>\$ 12,234</u></u>
--	-------------------------

Elk Rapids Township*Exhibit G**Fiduciary Fund
Statement of Net Assets
March 31, 2005*

	<i>Cemetery Perpetual Care</i>	<i>Tax Collection</i>
Assets		
Cash	\$ 75,000	\$ 105
Due From Other Funds	-	-
	<hr/>	<hr/>
<i>Total Assets</i>	<i>75,000</i>	<i>105</i>
	<hr/>	<hr/>
Liabilities		
Due to other Funds	-	105
	<hr/>	<hr/>
<i>Total Liabilities</i>	<i>-</i>	<i>105</i>
	<hr/>	<hr/>
Net Assets		
Held for Cemetery Improvements	\$ 75,000	\$ -
	<hr/> <hr/>	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement

Elk Rapids Township
Fiduciary Fund
Statement of Changes in Net Assets
For the Year Ended March 31, 2005

Exhibit H

	<i>Cemetery Perpetual Care</i>
<i>Additions</i>	
Contributions	<u>\$ -</u>
<i>Total Contributions</i>	-
Interest Income	<u>-</u>
<i>Total Additions</i>	<u>-</u>
 <i>Deductions</i>	
Transfer to Cemetery Fund	<u>15,000</u>
<i>Total Deductions</i>	<u>15,000</u>
<i>Change in Net Assets</i>	(15,000)
Net Assets - Beginning of Year	<u>90,000</u>
Net Assets - End of Year	<u><u>\$ 75,000</u></u>

The Notes to Financial Statements are an integral part of this statement

Elk Rapids Township
Notes to Financial Statements
March 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Elk Rapids Township have been prepared in accordance with generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

Effective April 1, 2004, the Township adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in these statements include the following:

- Depreciation on capital assets of the Township.
- Financial statements using the accrual basis of accounting for all the Township's activities as adjusted for capital assets and depreciation.
- A change in fund financial statements to focus on major funds.

A. Reporting Entity

Elk Rapids Township is a common law township as defined by the laws of the State of Michigan. The Township is located in Antrim County and is governed by an elected Supervisor and Township Board. The current state taxable value is \$183,326,206.

The criteria established by Statement 14 of the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements are based primarily on the concept of financial accountability. On this basis, accordingly, the financial statements of certain other governmental organizations are not included in the financial statements of the Township.

Elk Rapids Joint Building Authority – The Authority operates as an autonomous agency completely separate from Elk Rapids Township and the Village of Elk Rapids. On this basis, accordingly, the financial statements of the Authority have not been included in the financial statements of any other organizations.

B. Government –Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Elk Rapids Township
Notes to Financial Statements
March 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township collects property taxes between December 1 and February 28. Any uncollected real property taxes that become delinquent March 1 are purchased (paid) by Antrim County after the Township's year-end. Delinquent property taxes and administration fees receivable are not normally received within 60 days of the Township's fiscal year end, and are therefore reflected as deferred revenue on the combined balance sheet.

The local unit reports the following major governmental funds:

General Fund - This Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state distributions, and other intergovernmental revenues.

Fire and Rescue Fund – This fund is used to account for specific governmental revenues and expenditures related to the operation of the Township's fire and rescue services. Revenues are derived primarily from property taxes, contributions from other local units and charges for services.

Additionally, the government reports the following fund types:

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than debt service and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. The Special Revenue Funds currently maintained by the Township are The Cemetery Fund, Township Hall Restoration Fund, New Township Hall Construction Fund, Bass Lake Special Assessment Fund, Birch Lake Sewer Operating & Maintenance Fund, Fire Memorial Fund and the Ambulance Memorial Fund and are considered non-major governmental funds.

Elk Rapids Township
Notes to Financial Statements
March 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The Tax Collection Fund and Cemetery Perpetual Care Fund belong to this Fund type.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are changes between the government's water function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Capital Assets – capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Generally, capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Township officials compiled an inventory during the current year and in some cases, original costs were estimated. Consequently, beginning balances may differ from prior years.

Depreciation has been provided on these fixed assets using the straight line method over there estimated useful lives. A half year of depreciation is taken in the year of acquisition.

• Office Equipment & Furniture	5 years
• Land Improvements	20 years
• Roads and Paving	20 years
• Buildings and Improvements	30 years
• Motor Vehicles & Equipment	5-20 years
• Sewer System	10-40 years

Elk Rapids Township
Notes to Financial Statements
March 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

The General Fund and Special Revenue Funds are under formal budgetary control. Budgets shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those amounts contained in the formal budget approved and amended by the Township.

Encumbrance accounting is not used and appropriations normally lapse at year-end.

In the budgetary comparison schedules for major governmental funds, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds are treated as adopted at the activity level.

B. Budget Compliance

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. For the current year, the Township incurred expenditures in excess of the amount appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund: Township Hall & Grounds	\$ 8,800	\$ 8,836	\$ (36)
General Fund: Government Center	25,000	65,753	(40,753)

C. Improper Bank Accounts

Fire department officials have received monies from tribal grants, inheritances, etc. that have not been deposited with the Township Treasurer. These monies are confirmed by the bank as being the Township's. However, they appear to be under control of the Ambulance Association. There are no records of these receipts or related expenditures given to the Township Treasurer or Clerk for inclusion in the Township's accounting system.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by act No. 217, Public Acts of 1982 and Public Act 196 of 1997, states the Township, by resolution, may authorize the Treasurer to invest surplus funds as follows:

- A. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.

Elk Rapids Township
Notes to Financial Statements
 March 31, 2005

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS – continued

- B. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- C. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase.
- D. In United States government or Federal agency obligations repurchase agreements.
- E. In banker's acceptances of United States banks.
- F. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

B. Types of Deposits and Investments

The Township maintains all its surplus funds with a local bank in the form of savings/checking accounts and certificates of deposit. Interpreting the FDIC insurance coverage of \$100,000 per deposit to apply separately to the demand and time deposits of a public unit, the bank balances as of March 31, 2005 are categorized as follows:

- Category 1 Insured or collateralized with securities held by the entity or its agent in the entity's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in entity's name.
- Category 3 Un-collateralized

	<u>Balance</u>	<u>1</u>	<u>2</u>	<u>3</u>
Cash Deposits	\$ 413,791	\$ 100,326	\$ -	\$ 313,465
Cash Equiv.	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 413,791</u>	<u>\$ 100,326</u>	<u>\$ -</u>	<u>\$ 313,465</u>

At year-end, the Local Unit's cash deposits and cash equivalents were reported in the basic financial statements in the following categories:

	<u>Amount</u>
Governmental Activities	\$ 338,686
Fiduciary Funds	<u>75,105</u>
Total Deposits	<u>\$ 413,791</u>

Elk Rapids Township
Notes to Financial Statements
 March 31, 2005

NOTE 4 - SUMMARY OF CAPITAL ASSETS

Capital asset activity of the primary government for the current year is summarized as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 80,723	\$ -	\$ -	\$ 80,723
<i>Capital Assets Being Depreciated</i>				
Buildings & Improvements	1,290,484	1,775	-	1,292,259
Fire & Ambulance Equip.	257,792	31,456	-	289,248
Fire & Ambulance Vehicles	336,494	-	-	336,494
Fire Building & Imp.	492,963	-	-	492,963
Office Equip. & Furniture	34,353	48,765	-	83,118
Land Improvements	15,875	-	-	15,875
Sewer System	<u>850,920</u>	<u>-</u>	<u>-</u>	<u>850,920</u>
	<u>3,278,881</u>	<u>81,996</u>	<u>-</u>	<u>3,360,877</u>
<i>Accumulated Depreciation</i>				
Buildings & Improvements	(169,609)	(43,046)	-	(212,655)
Fire & Ambulance Equip.	(92,708)	(28,836)	-	(121,544)
Fire & Ambulance Vehicles	(76,392)	(16,824)	-	(93,216)
Fire Building & Imp.	(151,497)	(16,432)	-	(167,929)
Office Equip. & Furniture	(29,911)	(5,344)	-	(35,255)
Land Improvements	(6,747)	(794)	-	(7,541)
Sewer System	<u>(519,186)</u>	<u>(21,544)</u>	<u>-</u>	<u>(540,730)</u>
	<u>(1,046,050)</u>	<u>(132,820)</u>	<u>-</u>	<u>(1,178,870)</u>
<i>Net Capital Assets being Depreciated</i>	<u>2,232,831</u>	<u>(50,824)</u>	<u>-</u>	<u>2,182,007</u>
<i>Total Capital Assets of Governmental Activities – Net of Depreciation</i>	<u>\$ 2,313,554</u>	<u>\$ (50,824)</u>	<u>\$ -</u>	<u>\$ 2,262,730</u>

Depreciation expense in the current year was charged to programs of the primary government as follows:

Governmental Activities

General Government	\$ 49,183
Public Safety	62,093
Public Works	<u>21,544</u>
Total Governmental Activities	<u>\$ 132,820</u>

Elk Rapids Township
Notes to Financial Statements
March 31, 2005

NOTE 5 – LONG-TERM DEBT

The following is a summary of debt transactions of the Township for the year ended March 31, 2005:

	<u>Office Furniture</u>
Beginning Balance	\$ -
New Borrowing	44,510
Principle Payments	<u>-</u>
Ending Balance	<u><u>\$ 44,510</u></u>

A. Notes Payable

On April 19, 2004, the Township entered into an installment loan agreement with Alden State Bank for the purchase of furniture and equipment. The note requires 5 annual payments of \$9,858.11 including interest beginning April 19, 2005. The interest rate is fixed at 3.5% per year.

Future payments under the installment loan for fiscal year ending March 31:

	<u>Office Furniture</u>
<u>Year</u>	
2006	\$ 9,858
2007	9,858
2008	9,858
2009	9,858
2010	<u>9,858</u>
Total Payments	49,290
Less: Interest	<u>4,780</u>
	<u><u>\$ 44,510</u></u>

NOTE 6 – PENSION PLAN

The Township participates in a defined contribution pension plan through Manufacturers Life Insurance. The plan covers all elected officials. The 2004-2005 Township contribution to the plan was \$8,000 and the employee contribution was \$670. It also incurred administration fess of \$657. The Township provides social security coverage for its officials and employees not covered by the pension plan.

NOTE 7 – RISK MANAGEMENT

The Township pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage through the Michigan Township Participating Plan. The Township carries coverage for property damage, liability, wrongful acts, automobile, crime, and inland marine claims. Also, the Township carries worker's compensation insurance with The Accident Fund of Michigan and Michigan volunteer firefighters accident insurance coverage with MCM Group, Inc. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Elk Rapids Township
Notes to Financial Statements
March 31, 2005

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Michigan Consolidated Gas Company has requested the Michigan Tax Tribunal to enter an order reducing the 1997 through 2004 taxable value and property tax statement by approximately 49 percent. The Township attorney believes it probable some adjustment will be made. For years 2000 to 2004, Michigan Consolidated Gas Company paid approximately 70% of tax amounts billed based on expected reduction by the tribunal. The Township Assessor believes repayment, if any, will be for years 1997 to 1999 and the township may incur a liability of less than \$2,000. The Township has not established a contingent liability for the estimated loss due to the uncertainty of the outcome.

Heirs of a former township resident have filed suit to set aside a lease between the Township and the Elk Rapids Sportsman's Club and to seek enforcement of fifty-year-old deed restriction. The Circuit Court found in favor of the Plaintiff's in early 2005. The Township has appealed the decision and Oral Arguments in the Circuit Court have been scheduled for September 2005. The heirs are not requesting monetary damages, only the return of the property.

REQUIRED SUPPLEMENTAL INFORMATION

Elk Rapids Township
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2005

Schedule 1

	<i>Original Budget</i>	<i>Amended Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Beginning Fund Balance	\$ 64,435	\$ 64,435	\$ 64,435	\$ -
<i>Resources (Inflows)</i>				
Property Taxes	156,800	156,800	145,816	(10,984)
Delinquent Property Tax	9,000	9,000	8,587	(413)
Swamp Tax	34	34	34	-
Dog Tax	30	30	112	82
Penalties & Interest on Taxes	3,000	3,000	5,548	2,548
Property Tax Administration Fee	42,000	42,000	48,841	6,841
Delinquent PTAF	2,000	2,000	2,377	377
Zoning Permits	4,000	4,000	2,700	(1,300)
State Shared Revenue	70,000	70,000	68,778	(1,222)
School Tax Collection Fee	11,500	11,500	11,401	(99)
Earned Interest	1,000	1,000	16,608	15,608
Rents and Royalties	2,000	2,000	3,806	1,806
Reimbursements	-	-	63	63
Contributions	-	-	5,150	5,150
Other Revenues	-	-	2,138	2,138
Proceeds from Debt	-	-	44,510	44,510
Transfer from Other Funds	-	-	2,970	2,970
<i>Total Available for Appropriation</i>	<i>365,799</i>	<i>365,799</i>	<i>433,874</i>	<i>68,075</i>
<i>Charges to Appropriations (Outflows)</i>				
<i>General Government</i>				
Township Board	60,150	80,050	70,060	9,990
Supervisor	13,690	13,690	13,464	226
Elections	3,500	6,500	6,461	39
Assessor	39,362	39,362	28,931	10,431
Clerk	21,379	21,379	17,784	3,595
Board of Review	900	900	43	857
Treasurer	26,489	26,489	18,966	7,523
Township Hall & Grounds	8,800	8,800	8,836	(36)
Government Center	20,000	25,000	65,753	(40,753)
<i>Public Works</i>				
Road Maintenance	20,000	100	89	11
Street Lights	1,000	1,000	785	215
<i>Community & Economic Development</i>				
Zoning	41,350	41,350	39,773	1,577

Notes to Financial Statements are an integral part of this statement

Elk Rapids Township
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2005

Schedule 1

	<i>Original Budget</i>	<i>Amended Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
<i>Charges to Appropriations (Outflows) - continued</i>				
Parks & Recreation	5,000	2,000	-	2,000
Other Expenditures				
Farmland Preservation	3,000	3,000	2,953	47
Retirement	10,000	10,000	8,657	1,343
Spring Clean Up	2,000	2,000	-	2,000
Contingencies	12,000	7,000	-	7,000
Transfers to Other Funds	20,000	20,000	-	20,000
<i>Total Charges to Appropriations</i>	<u>308,620</u>	<u>308,620</u>	<u>282,555</u>	<u>26,065</u>
Budgetary Fund Balance	<u>\$ 57,179</u>	<u>\$ 57,179</u>	<u>\$ 151,319</u>	<u>\$ 94,140</u>

Notes to Financial Statements are an integral part of this statement

Elk Rapids Township
Budgetary Comparison Schedule
Fire and Rescue Fund
For the Year Ended March 31, 2005

Schedule 2

	<i>Original Budget</i>	<i>Amended Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Beginning Fund Balance	\$ 100,507	\$ 100,507	\$ 100,507	\$ -
<i>Resources (Inflows)</i>				
Current Property Taxes	151,200	151,200	152,107	907
Delinquent Property Taxes	6,000	6,000	7,219	1,219
Local Unit Contributions	39,000	39,000	38,505	(495)
Other Contributions	-	-	-	-
Charges for Services	50,000	50,000	71,645	21,645
Earned Interest	3,500	3,500	630	(2,870)
Refunds and Miscellaneous	2,000	2,000	416	(1,584)
Transfer from Other Funds	-	-	-	-
<i>Total Available for Appropriation</i>	<i>352,207</i>	<i>352,207</i>	<i>371,029</i>	<i>18,822</i>
<i>Charges to Appropriations (Outflows)</i>				
Fire Protection				
Chief & Deputy Chief Wages	6,500	6,500	6,500	-
Training Wages	9,000	9,000	9,000	-
Officers	3,250	3,250	3,250	-
Payroll Taxes	2,200	2,200	2,393	(193)
Runs	15,000	15,000	11,985	3,015
Uniforms	2,000	2,000	-	2,000
Supplies & Postage	1,000	1,000	2,434	(1,434)
Dues & Fees	1,000	1,000	305	695
Hazardous Materials	750	750	-	750
Gas & Oil	800	800	1,123	(323)
Legal	500	500	201	299
Medical/Physicals	5,000	5,000	794	4,206
Telephone	1,000	1,000	875	125
Mileage	700	700	751	(51)
Insurance	7,000	7,000	8,263	(1,263)
Publishing	-	-	-	-
Maintenance	22,000	22,000	14,605	7,395
Miscellaneous	-	-	-	-
Education	4,000	4,000	3,187	813
Capital Outlay	30,000	30,000	32,157	(2,157)
	111,700	111,700	97,823	13,877
Rescue Unit				
Chief Wages	3,600	3,600	3,600	-
Volunteers	27,000	27,000	24,900	2,100
Deputy Wages	1,200	1,200	1,200	-

The Notes to Financial Statements are an integral part of this statement

Elk Rapids Township
Budgetary Comparison Schedule
Fire and Rescue Fund
For the Year Ended March 31, 2005

Schedule 2

	<i>Original Budget</i>	<i>Amended Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Rescue Unit - continued				
Training Officer Wages	-	-	1,700	(1,700)
Records/Finance Officer Wage	4,700	4,700	1,200	3,500
Shift Pay Wages	55,000	55,000	55,194	(194)
Continuing Education	3,500	3,500	2,100	1,400
Payroll Taxes	7,300	7,300	6,877	423
Supplies & Postage	9,000	9,000	7,447	1,553
Gas & Oil	1,000	1,000	1,723	(723)
Legal	600	600	86	514
Medical & Physicals	500	500	362	138
Telephone	1,600	1,600	1,570	30
Mileage	500	500	164	336
Insurance	14,000	14,000	9,786	4,214
Administration Fee - Village	6,000	6,000	9,021	(3,021)
Maintenance and Repairs	7,000	7,000	5,697	1,303
Laundry and Miscellaneous	-	-	-	-
Education & Dues	4,000	4,000	2,894	1,106
Capital Outlay	15,000	15,000	1,942	13,058
	161,500	161,500	137,463	24,037
Building Expenditures				
Wages & Taxes	15,000	15,000	4	14,996
Supplies	1,300	1,300	1,458	(158)
Legal	150	150	-	150
Insurance	10,000	10,000	-	10,000
Electricity	5,000	5,000	4,582	418
Heating & Gas	3,500	3,500	2,212	1,288
Cleaning	600	600	600	-
Snow Plowing	750	750	-	750
Water & Sewer	400	400	410	(10)
Trash Pick-up	600	600	721	(121)
Maintenance	9,000	9,000	2,895	6,105
Miscellaneous	1,200	1,200	-	1,200
Capital Outlay	16,965	16,965	8,246	8,719
	64,465	64,465	21,128	43,337
Transfers to Other Funds	-	-	-	-
<i>Total Charges to Appropriations</i>	<u>337,665</u>	<u>337,665</u>	<u>256,414</u>	<u>81,251</u>
Budgetary Fund Balance	<u>\$ 14,542</u>	<u>\$ 14,542</u>	<u>\$ 114,615</u>	<u>\$ 100,073</u>

The Notes to Financial Statements are an integral part of this statement

ADDITIONAL INFORMATION

Elk Rapids Township
Combining Balance Sheet
Non-Major Governmental Funds
March 31, 2005

	Special Revenue Funds							Total Non-Major Governmental Funds
	Cemetery	Ambulance Memorial	Fire Memorial	Birch Lake Operating & Maintenance	Bass Lake Special Assessment	Townhall Restoration	Townhall Construction	
Assets								
Cash	\$ -	\$ 13,310	\$ 1,520	\$ 31,740	\$ 27,299	\$ -	\$ -	\$ 73,869
Taxes Receivable	-	-	-	-	176	-	-	176
Due from Other Funds	-	-	-	-	-	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ 13,310</u>	<u>\$ 1,520</u>	<u>\$ 31,740</u>	<u>\$ 27,475</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,045</u>
Liabilities and Fund Equity								
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred Revenue	-	-	-	-	176	-	-	176
Due to Other Funds	-	-	-	-	-	-	-	-
Fund Balance	-	13,310	1,520	31,740	27,299	-	-	73,869
Total Liabilities and Fund Equity	<u>\$ -</u>	<u>\$ 13,310</u>	<u>\$ 1,520</u>	<u>\$ 31,740</u>	<u>\$ 27,475</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,045</u>

The Notes to Financial Statements are an integral part of this statement

Elk Rapids Township
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
Non-Major Governmental Funds
For the Year Ended March 31, 2005

	Special Revenue Funds						Total Non-Major Governmental Funds
	Cemetery	Ambulance Memorial	Fire Memorial	Birch Lake Operating & Maintenance	Bass Lake Special Assessment	Townhall Restoration	Townhall Construction
<i>Revenues</i>							
Taxes and Penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for Services	6,300	-	-	33,282	-	-	39,582
Interest and Rentals	1,232	220	4	431	-	-	1,887
Special Assessments	-	-	-	-	5,234	-	5,234
Contributions	-	75	885	-	-	-	960
Other Revenue	-	-	-	-	-	-	-
<i>Total Revenues</i>	7,532	295	889	33,713	5,234	-	47,663
<i>Expenditures</i>							
General Government	24,632	-	-	-	-	-	25,398
Public Safety	-	2,533	119	-	-	-	2,652
Public Works	-	-	-	23,417	1,650	-	25,067
Other	-	-	-	-	-	-	-
<i>Total Expenditures</i>	24,632	2,533	119	23,417	1,650	-	53,117
<i>Excess Revenues (Expenditures)</i>	(17,100)	(2,238)	770	10,296	3,584	-	(5,454)
<i>Other Financing Sources and (Uses)</i>							
Operating Transfers In	15,000	-	750	-	-	-	15,750
Operating Transfers (Out)	(268)	(750)	-	-	-	(2,526)	(3,720)
<i>Total Other Financing Sources and Uses</i>	14,732	(750)	750	-	-	(2,526)	12,030
<i>Excess Revenues (Expenditures) and Other Sources (Uses)</i>	(2,368)	(2,988)	1,520	10,296	3,584	(2,526)	6,576
Fund Balance - Beginning Or Year	2,368	16,298	-	21,444	23,715	2,526	67,293
Fund Balance - End of Year	\$ -	\$ 13,310	\$ 1,520	\$ 31,740	\$ 27,299	\$ -	\$ 73,869

The Notes to Financial Statements are an integral part of this statement

OTHER INFORMATION (UNAUDITED)

Elk Rapids Township

Comments & Recommendations

We were engaged to audit the financial statements of Elk Rapids Township as of and for the year ended March 31, 2005 and issued our report thereon dated August 22, 2005. As part of our examination, we studied and evaluated the Township's internal control structure. Because the study and evaluation were only part of the overall audit plan regarding the financial statements, our study was more limited than would be necessary to express an opinion on the system of internal control taken as a whole. Accordingly, we do not express an opinion on the system of internal control of the Township taken as a whole.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

The following are considered material weaknesses as defined above.

Fire Fund Monies

Fire department officials have received monies from tribal grants, inheritances, etc. that have not been deposited with the Township Treasurer. These monies are confirmed by the bank as being the Township's. However, they appear to be under control of the Ambulance Association. There are no records of these receipts or related expenditures given to the Township Treasurer or Clerk for inclusion in the Township's accounting system. The Michigan Department of Treasury policy requires all monies received on behalf of the Township or its departments to be deposited in financial institutions in control of the Township Treasurer and recorded by the Township Clerk. This is a repeat comment from prior years.

The following are reportable conditions that are not considered to be material weaknesses.

Budget

Budget amounts entered and reported on computer print outs did not match the budget adopted by the board and amended. Additionally, it does not appear a budget worksheet is maintained that details the original adopted budget and budget amendments. Additional time was required to reconcile budget amendments noted in the board minutes to the adopted budget and budgeted amounts on the computer print outs. This is a repeat comment from prior years.

Board Minutes

The board minutes do not reflect the dollar amount or detail of bills to be approved for payment. We recommend a detailed list be attached to the minutes or detail be contained in the minutes.

The closing of the Townhall Restoration Fund and the New Townhall Construction Fund cash accounts and subsequent transfer to the General Fund were not noted in the minutes. Any change in bank account status should be reported in the board meeting minutes.

Elk Rapids Township

Comments & Recommendations

Bank Reconciliations

We noted several checks outstanding for an extended time. Additionally, some checks listed as outstanding on the bank reconciliation had cleared the bank. We continue to strongly recommend any check outstanding for more than 2 months and any deposit outstanding for more than five days be investigated and resolved as soon as possible. This is a similar comment from prior years.

Bank Accounts

The general ledger cash balances did not match the Treasurer's books in total. Although this is a repeat comment from prior years, the Treasurer has made strong progress ceasing commingling of funds. Additional time was required to reconcile the Treasurer's books, reconciled bank balances and the general ledger. We recommend the Treasurer continue his diligence maintaining accurate records that reconcile to the general ledger on a monthly basis.

Coding and Allocation

Many small items of less than \$500 were coded to capital outlay. The clerk indicated there is a capitalization policy however, it appears the policy is not followed. Discussions with the Clerk regarding capital outlay recording should alleviate future problems. Capital outlay accounts should only be used for expenditures for fixed asset additions or material improvements to fixed assets. Amounts under the capitalization threshold should be posted to another expenditure account such as supplies or repairs and maintenance.

General Fixed Assets

The Township did not maintain an inventory of its General Fixed Assets. Even though the Township has been reporting the balances of General Fixed Assets, officials have not been able to locate the original inventory taken several years ago.

Considerable time was required to establish an accurate inventory of fixed assets held by the Township.

Pension Plan

We noted an overpayment of retirement benefits on an employee's behalf from prior years has not been paid by or collected from the employee. We recommend either collecting the amount from the employee or have the Board consider forgiving the debt and add it to the employee's wages.

In a continuing effort to enhance internal control and improve the accounting system, financial reporting, and overall management, we offer the following comments and recommendations that we do not consider being reportable conditions.

Inter-Fund Receivables

We noted an amount due between the General Fund and Fire and Rescue Fund from prior years was made in reverse. We strongly recommend a check be written from the General Fund to the Fire & Rescue Fund for the amount due immediately.

Elk Rapids Township

Comments & Recommendations

Closing Comments

Some of the above comments are repeat comments from prior years. It is very important that serious consideration be given to these comments. We do note progress was made to address other repeat comments and the Treasurer and Clerk should be commended for their efforts. We discussed many of the comments and recommendations noted above with the Clerk and Treasurer during our fieldwork. Both expressed an understanding and continued desire to take actions to implement and correct procedures and policies as recommended. Please contact us if you need assistance with implementing these recommendations.

We are happy to discuss any of these recommendations and assist in their implementation. As a matter of course, we will forward these statements to the State Treasury Department. This report is intended solely for the information and use of Elk Rapids Township's management, and others within the organization. Should any questions arise on these financial statements or the conduct of our audit, please call upon us.